

Forbs

DECEMBER 29, 1986

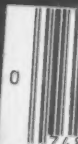
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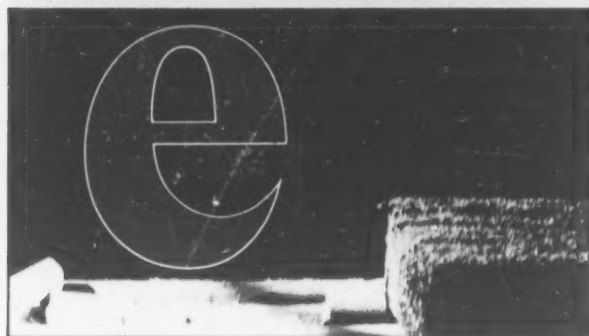
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DECEMBER 29, 1986
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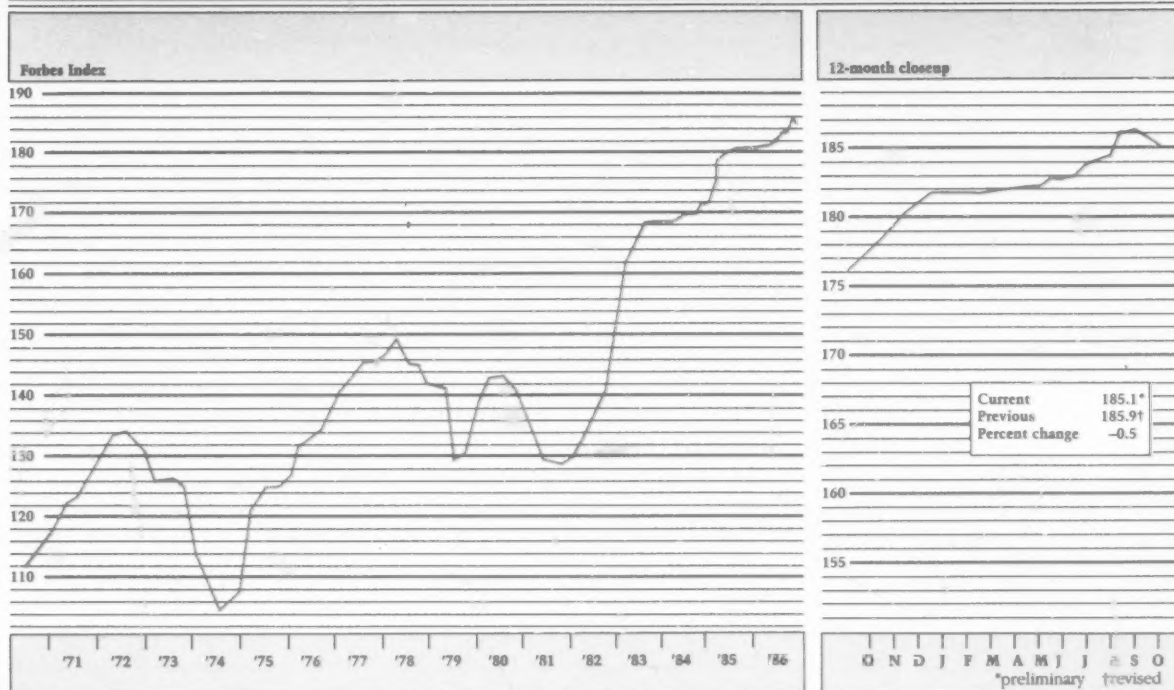
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The Forbes Index



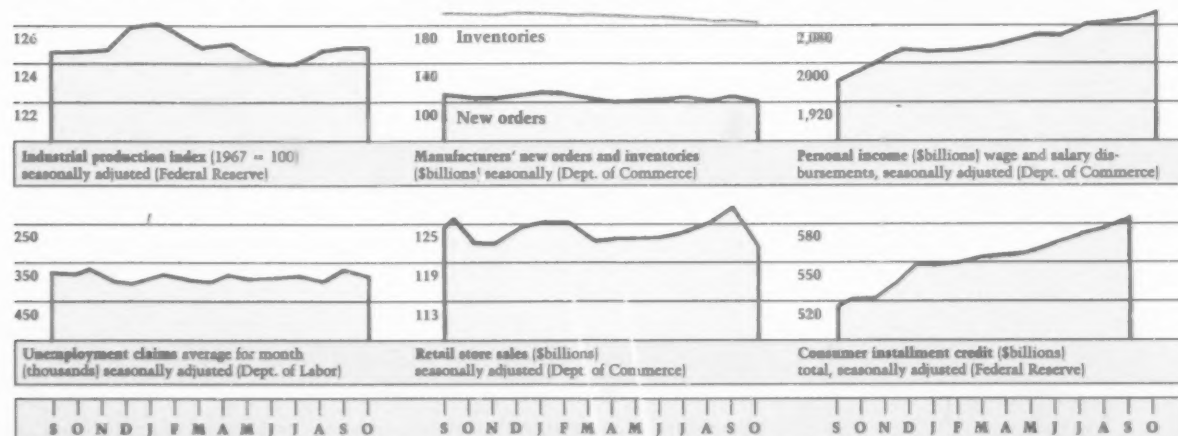
Bad news for manufacturing. After six months of uninterrupted increases, the Forbes Index closed out October with a 0.5% decline. Why? Manufacturers' new orders for durable goods fell 5.1% from September to October, while inventories fell by only 0.4%. This is an ominous sign for the troubled industrial sector: The industrial production component is up only 0.2% since July.

On the positive side, prices have been virtually flat. The Consumer Price Index inched up just 0.1% in October and is currently increasing at an annual rate of less than 2%. Despite the low inflation rate, however, the Federal Reserve, concerned about weakening the dollar, will probably wait for West Germany and Japan to lower their interest rates before cutting the discount rate.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Personal Affairs

Edited by William G. Flanagan

For as little as \$4,000 extra, you, too, can appear sexy or unpredictable behind the wheel. Or maybe just chilly and windblown.

Return of the ragtop

By Jerry Flint

WHEN LEE IACocca was thinking of reviving the convertible a few years back, he drove a prototype around

town one summer. It was like being young again, he says. Girls tried to climb in, uninvited. Crowds gathered around the car at the shopping center. "You would have thought I was giving

away \$10 bills," he said. That was enough for Iacocca. Chrysler decided to skip the research, and, back in 1982, the American convertible was born again.

Its success is history. Chrysler has been selling 37,000 convertibles a year. Competitors itched, then imitated. About 100,000 American convertibles were sold this year. In 1987 there will be at least 20 American and foreign convertibles in showrooms, including many brand-new models, ranging in price from \$13,000 to \$168,000 (see table, p. 101). With imported convertibles, sales are expected to exceed 135,000 cars. Sales of near-convertibles—T-tops, open jeep-type vehicles, etc.—are expected to total another 150,000 or so.

But Chrysler is hardly standing still while the competition gets rolling again. It has very high hopes for its all-new LeBaron convertible, designed as a convertible from the ground up—and the top down.

Given the market's enthusiasm, why did the convertible all but disappear from American roads in the first place? Historically, of course, open cars preceded those with permanent tops; it wasn't until the 1920s that steel roofs became standard. But the



Chevy Camaro IROC-Z



Chrysler LeBaron



Saab 900 Turbo



Mercedes 560SL

Stock convertibles

Social commitment, safety concerns and air-conditioning all but wiped out U.S. assembly-line con-

vertibles a decade ago. In 1987 manufacturers expect to sell over 135,000 in the U.S.

Model	Est 1987 price (fully equipped)	Est 1987 volume	Model	Est 1987 price (fully equipped)	Est 1987 volume
U.S.			Imports		
GM			Imports		
Cadillac Allante (Feb)	\$50,000	7,000	BMW 325i (spring)	\$30,000	10,000
Chevy Camaro IROC-Z (Jan)	20,000	NA	Ferrari cabriolet	74,400	200
Chevy Cavalier	15,000	5,500	Jaguar XJ-S	47,000	2,500
Chevy Corvette	35,000	6,000	Maserati Spyder	34,000	700
Pontiac Sunbird	16,000	3,000	Mercedes 560 SL	58,000	11,500
CHRYSLER			Porsche 911 cabriolet	47,000	2,500
LeBaron (spring)	18,000	25,000	Rolls-Royce Corniche II	168,000	250
Maserati (fall)	30,000	5,000	Saab 900 Turbo (spring)	28,000	2,000
FORD			Toyota Celica	18,000	5,000
Mustang	16,500	19,500	Volkswagen cabriolet	14,000	14,000
AMERICAN MOTORS			Near-convertibles		
Renault Alliance	13,000	2,500	Nissan Pulsar	13,000	60,000
Imports			Porsche 911 Targa	42,500	1,900
Alfa Romeo Spider Veloce	17,500	4,500	Suzuki Samurai	8,000	65,000
Aston Martin Volante	138,000	50	Toyota Supra Sports Roof	25,000	NA
			NA: Not available.		



American Motors' Renault Alliance



Volkswagen cabriolet



Ford Mustang



Alfa Romeo Spider Veloce



Cadillac Allante

open car—the convertible, roadster, cabriolet, sports car, whatever the name—still had a cachet that never really died. By 1965 half a million convertibles were being made in the

U.S., the most ever, accounting for 6% of total production.

Yet a decade later the assembly-line convertible was dead, wiped out as if by some monstrous disease. Some

auto analysts cite social change—convertibles didn't turn on a generation struggling with Vietnam, drugs and commitment.

Air-conditioning, cheaper and more efficient, surely played a role. So did 70mph speeds, leaks and rattles, vandalism and special safety standards that automakers were reluctant to meet and buyers were loath to pay for. So Detroit had to give up the ragtop.

But not all the auto-buying public. Dichards kept independent auto shops busy shearing off roofs and otherwise modifying all kinds of hardtops, and they still do. In southern California, for example, R. Straman Co. says it renders topless about 1,500 cars a year, ranging from the Honda CRX (\$5,000) to the Cadillac Eldorado (\$10,000) to the Rolls-Royce Silver Spirit (\$75,000).

Here's a year-end gift idea that will keep on giving in years ahead and is doubly blessed by the taxman.

Give like a Rockefeller

By Barbara Kallen

IF YOU ARE IN THE 50% tax bracket and are used to making charitable donations of at least \$2,000 per year, this could be an excellent time to set up your very own charitable foundation. Reason? Contributions made before the end of 1986 will be worth more to you, in tax savings, than gifts in the future. So financial advisers are urging their better-heeled clients to set up their own foundations—formally styled Section 501(c)(3) organizations—before year-end. Here's how it works:

Jane Smith, who earns over \$200,000 per year and consistently gives to charity, establishes the Jane Smith Foundation by putting \$60,000 in cash into a trust. In 1986 Smith can write off the entire \$60,000, in her 50% tax bracket that's a \$30,000 cut in her tax bill.

Every year thereafter, she, as trustee, is required to pay out at least 4.925% of the trust's fair market value to the charities of her choice.

If you set up your foundation using cash, Uncle will let you deduct a maximum of 30% of your adjusted gross income this year. Hence the \$60,000 amount for Jane Smith's foundation. If you use securities to establish your



foundation, the maximum amount you can deduct is 20% of your annual gross income.

Why the urgency? With the maximum federal tax rate being phased down from 50% this year to 38.5% in 1987 and then to 28% in 1988, the tax benefits of establishing a foundation now far exceed the tax benefits of making charitable donations in increments over a period of years. You're letting Uncle Sam underwrite a larger portion of your generosity.

Says Daniel E. Carper, national sales manager at Lord, Abbott & Co., who is busy setting up many such foundations for his clients, "For peo-

ple who fit the profile—high income, high net worth, disposed to giving—I don't even have to do a sales job. It's obviously to their advantage."

Another plus, admits Carper, is that clients like the heady feeling of having their own foundation. "Makes them feel like a Rockefeller," he says.

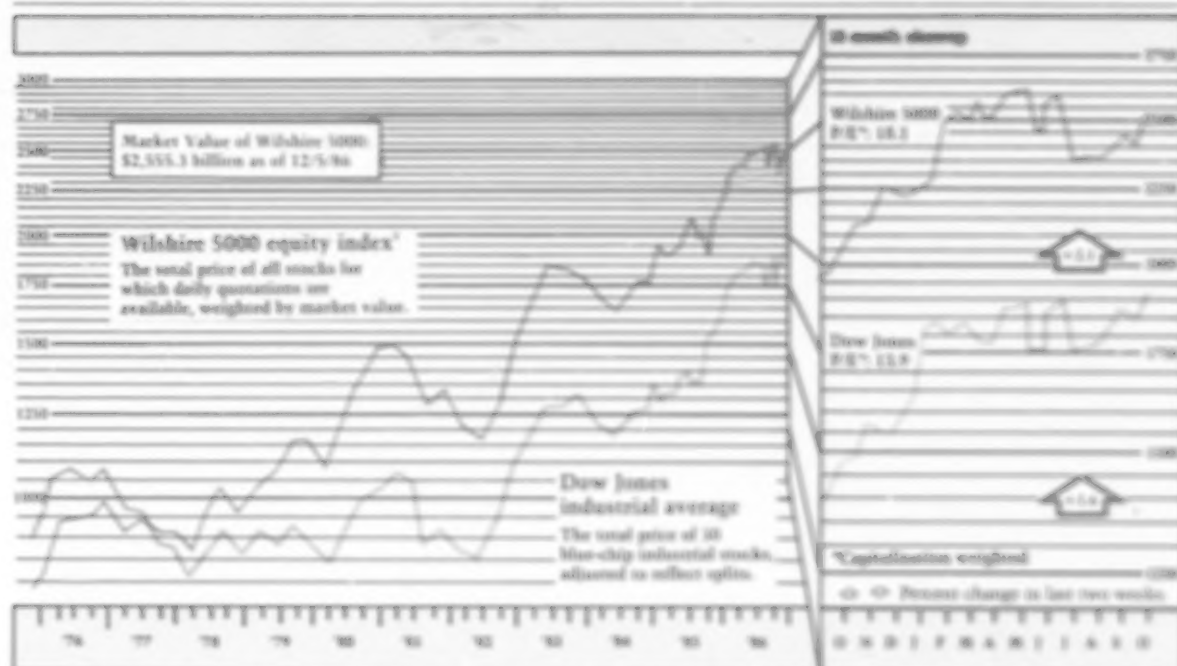
Contributions to the trust can come from appreciated securities, including mutual fund shares. And with the maximum federal long-term capital gains tax increasing to 28% in 1987, contributions of appreciated securities may make sense. You can write off contributed stock at market value, of course.

Trust money may be invested in any prudent vehicle—stocks, mutual funds, bonds. What you may not do is invest in what the IRS calls "jeopardizing investments." The Service will take a close look at trading in securities on margin, trading in commodities futures, investing in oil and gas leases, buying puts, calls and straddles, buying warrants and selling short. If it decides any of these investments are imprudent, you may be forced to pay an excise tax. Another investment consideration: Some degree of liquidity is necessary, since the trust must make those annual distributions of just under 5% or pay an excise tax. Charitable foundations must also pay excise taxes of 2% net income.

The IRS is dead serious about this money being dedicated to charity. Once you establish a charitable foundation, there is no getting your money back. "If you think you might go broke in the future," says Carper, "it's not for you."

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Little fear of heights. The market worried, but not for long, about insider trading scandals. Then stock prices began climbing again. During the two-week period the Dow industrials closed one session at 1955, an all-time high. The Dow then lost some 30 points to finish the two-week stretch with a modest 1.6% gain, but a 2000 Dow is not unthinkable.

The big winners hitherto had been blue-chip stocks. Both the Forbes Sales 500 and S&P's 500 hit new highs

before backing off slightly. The NYSE, too, finished with a 1.4% of its early September peak. But now secondary shares are also showing signs of life. The Nasdaq nudged up a 2.3% two-week gain, although this still leaves the Nasdaq some 11.7% off its early July peak. There could be some catch-up opportunities in secondary shares—assuming the rally is for real. On the other hand, the Wilshire 5000, now selling at 18.1 times latest 12-month earnings, is not cheap.

Closup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Futon 500 ¹	Dow Jones Industrials	NYSE Composite	Amer. Market Value Index	Nasdaq Composite
in last 4 weeks	1.3	1.9	2.0	1.3	0.0	0.0
in last 52 weeks	21.0	16.7	30.3	25.8	16.2	16.4

Stock performance based on six key financial parameters

Percent change	Company size		Volatility ²		P/E multiple		Dividend yield		Growth profile ³		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$5
in last 4 weeks	1.3	0.4	-0.5	0.0	0.7	-0.4	-0.7	0.3	-0.2	0.2	0.0	-0.2
in last 52 weeks	26.0	17.4	10.1	27.0	16.1	16.3	10.5	12.0	10.0	10.2	10.0	10.0

¹Wilshire index reflects price performance 12 dollars higher than market value of corresponding stocks; measure of concentration of equity value; index was created "blind" to splits. ²Stock's sensitivity to overall market movement. High relative means have high price fluctuations; low relative means are more stable. ³Quantitative evaluation of a stock's growth stage, determined by Wilshire Associates.

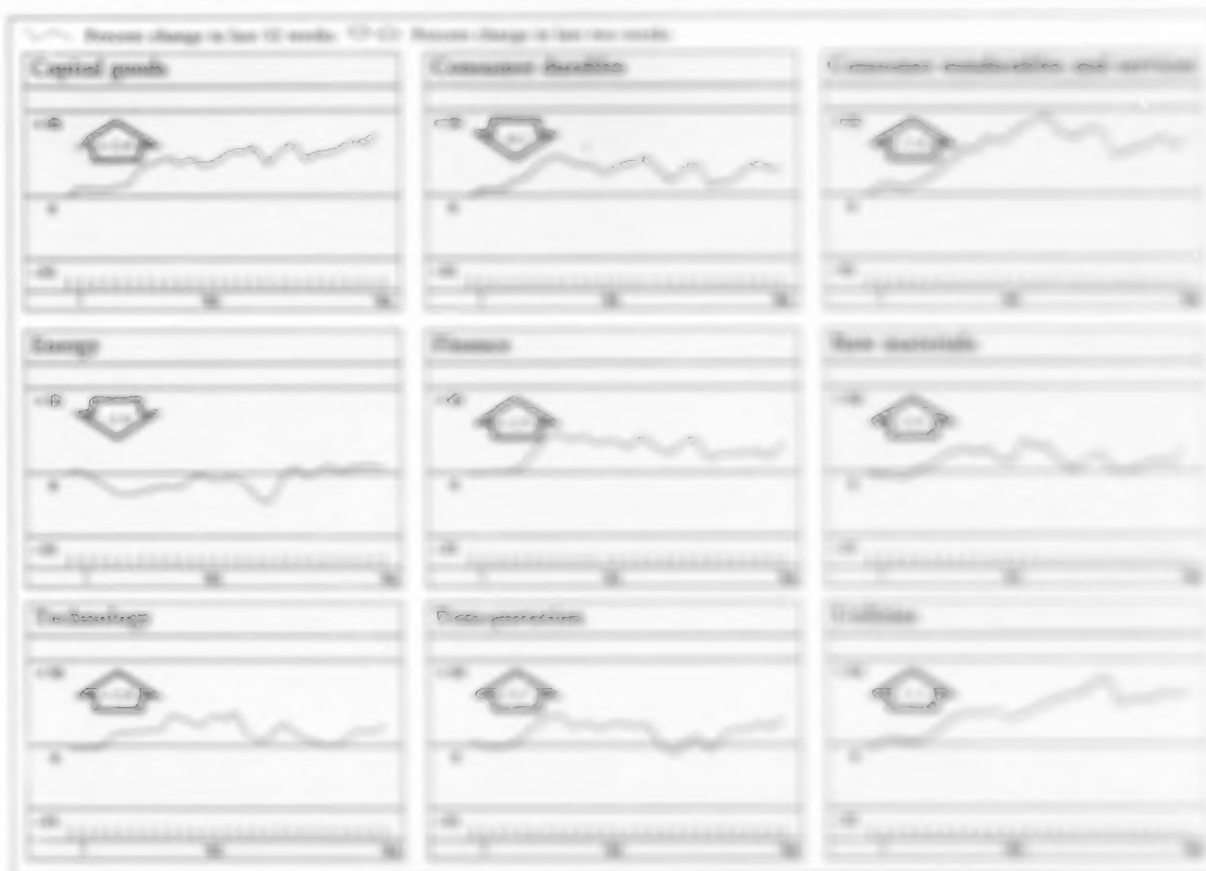
Note: All data for periods ending 12/5/90. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Winners and losers. Sector leaders and laggards are unlikely to change much before year's end. Consumer weakness has muted stock the last year. The group is up 12.4% over the last 52 weeks. In second place are utilities, with a 28.2% increase. With falling interest rates, electric companies have been popular, but the railroads have also joined the utility group. Near the middle of the pack are

consumer durables, up 16.1%. Real materials, with a 25.0% gain, are joining the 13% gain of the market, as measured by the Wilshire index.

Technology and energy are consistently top performers, with only a 5.2% increase in the months ahead to come. There may be more opportunities in these high-tech groups than with previous market openings.



What The Analysts Think

Huge day is right this time, judged by what the analysts predict for 1987 earnings. The Wilshire index is trading at a multiple of only 1.1. But there are caveats here, says

the past two earnings seasons produced the 1986 2nd- and 3rd-quarter performance in 1987, earnings will rise further with the progress toward the year's end.

Comparing the Wilshire 400		
Performance period	Average earnings per share	P/E
Index 12 months	\$5.76	16.6
1986 estimates	\$5.00	16.2
1987 estimates	\$5.76	12.7

Stock based on change of estimate	Sector	Estimated 1986		4-Quadrant 1986 estimate	
		1986	1987	1986	1987
	Index	24.1	24.1	24.1	24.1
	Consumer electronics	1.4	1.4	1.4	1.4
	Finance	1.4	1.4	1.4	1.4
	Real materials	1.4	1.4	1.4	1.4
	Consumer durables	1.4	1.4	1.4	1.4
	Technology	1.4	1.4	1.4	1.4
	Energy	1.4	1.4	1.4	1.4
	Pharmaceuticals	1.4	1.4	1.4	1.4
	Utilities	1.4	1.4	1.4	1.4

Source: Wilshire Associates Inc., San Francisco. Earnings estimates are based on the Wilshire 400 index. The Wilshire 400 index is a market capitalization-weighted index of the 400 largest U.S. companies. The Wilshire 400 index is a market capitalization-weighted index of the 400 largest U.S. companies.

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